

Review of Operations

Advertising Business

Commencing with the fiscal year ended March 2002, the Group has changed its method of accounting for advertising agency commissions. Advertising sales are now recorded on a gross basis, and advertising agency commissions are included in selling, general and administrative expenses under sales commissions. In the past, advertising sales were recorded on a net basis after deducting advertising agency commissions. The Group implemented this change in accounting methods because of a revision of its sales structure arising from a shift, in principle, to selling advertising through advertising agencies. The new accounting method facilitates management of sales commissions, and the change also brings the Group in line with the conventional accounting system used by TV, newspaper, and other media that sell advertising. Figures for previous fiscal years have been adjusted accordingly to permit comparison.

Sales by our advertising business for the fiscal year declined 8.4%, to ¥12,298 million, and generated 39.0% of consolidated net sales. The advertising sales of our consolidated subsidiary eGroups KK are included in these net sales.

Operating Environment

Japan's economy headed deeper into decline under the impact of bankruptcies of major companies, instability in the financial system, and the terrorist attacks on the United States. According to a survey by Dentsu Inc., the Internet advertising market in Japan during calendar year 2001 increased 24.6%, to ¥73.5 billion, exhibiting a slower growth rate than in the past. These factors were reflected in difficult business conditions for the Yahoo! Japan Group. Amid falling advertising and promotional expenditures by corporations, advertisers became extremely cautious with Internet advertising, and the number of new advertisers and major advertising campaigns fell.

In response to these trends, we revised our sales structure, changing our focus, in principle, to selling advertising through advertising agencies to target National Clients. Moreover, in February 2002 we introduced Yahoo! Billboard, the first reach index type of product to be based on the number of unique browsers that the advertisement is viewed on. Besides being highly effective in raising consumer awareness of a company's new product or service, Yahoo! Billboard is more easily understood by advertisers because it uses the same evaluation standards as other media, such as TV, newspapers, magazines, and radio. Consequently, we have high expectations that Yahoo! Billboard will contribute significantly to advertising sales in the future. Among the other new products launched during the fiscal year under review were the horizontal banner Skyscraper and the group-specific e-mail advertising Yahoo! Deliver. To increase the visual impact of our banner advertising, we also actively introduced rich-media banners, such as flash banners.

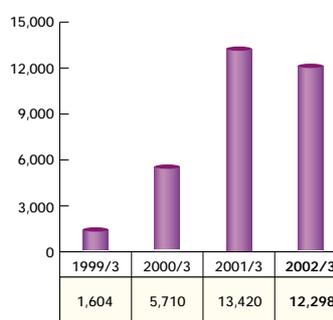
Despite these measures, advertising business sales contracted ¥1,121 million year on year because of the harsh business conditions.

Business Strategies

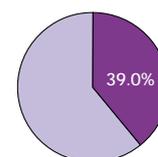
Although we saw signs of a slight recovery in advertising business sales during the fourth quarter of the fiscal year under review, Japan's economy remains in the doldrums, with no clear indication of future direction. While we are confident of growth in the Internet advertising market in the medium to long term, it still is a small market with a short history and is easily influenced by the trends in the Internet advertising market in the United States.

Strategically, to establish a solid base of revenues from our advertising business, we will continue to concentrate on winning more National Clients and on developing new products. Through the use of methods that verify the effectiveness of our ads, we will seek to increase the value of Internet advertising and to achieve higher market penetration rates.

Advertising Business Sales (Millions of Yen)



Share of Net Sales



Yahoo! BB Business

Revenues from Yahoo! BB, operations of which began in June 2001, amounted to ¥13,286 million, accounting for 42.2% of consolidated net sales. The main sources of income for the business were sales of the Yahoo! BB Starter Kit and ISP service fees.

Operating Environment

In June 2001, in partnership with BB Technologies, Corp. (BBT), a joint venture with the Softbank Group, we began a comprehensive broadband service, Yahoo! BB. Yahoo! BB provides a high-speed Internet connection service using ordinary telephone lines and a portal site for broadband content for Yahoo! BB members. The service offers a continuous connection, high-speed (8 megabits) Internet broadband service at a low, fixed rate of ¥2,280 per month. During the fiscal year under review, Yahoo! Japan assembled the Yahoo! BB Starter Kit, received service subscriptions, operated the broadband portal site, and provided the payment platform. BBT built, supplied, and maintained an asymmetric digital subscriber lines (ADSL) infrastructure and provided technological development and support.

We took steps to reduce the installation time required from subscriber application to completion of the jumper installation inside the NTT central office. We requested that BBT review and reform its business processes to shorten the number of days required. At the same time, we also conducted a variety of promotional campaigns to attract new subscribers. At the end of March 2002, BBT had connected approximately 490 thousand lines to the service, on a number of jumper installations completed basis.

Business Strategies

In April 2002, Yahoo! Japan Group and BBT and other members of the Softbank Group commenced BB Phone, a broadband telephone service that takes advantage of Yahoo! BB's network. An Internet protocol telephone service that utilizes our own network, BB Phone can offer lower-than-ever-before rates for calls between Yahoo! BB members as well as for regular domestic and international calls.

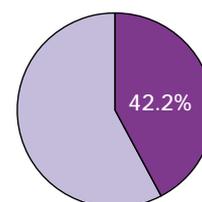
Until March 2002, we sourced ASDL modems through Softbank Corp. and the modem manufacturer, packaged them into the Yahoo! BB Starter Kit, and sold them to BBT. Beginning in April of this year, however, we are no longer procuring modems or selling the Starter Kit. Instead, we are receiving incentive commissions based on the number of new subscribers signed up and subscriber continuing fees from BBT. This change was made because our subscription route has been expanded to signups through consumer electronics outlets and other stores as well as the Internet route. In addition, it has become necessary to actively expand subscriptions from corporations as a result of the start-up of the BB Phone service.

The Group's goal in this business is to aggressively build its subscriber base through promotional campaigns and other advertising to expand earnings.

Yahoo! BB Portal Site



Share of Net Sales



Auction Business

Revenues from our auction business totaled ¥2,416 million, accounting for 7.7% of consolidated net sales. The primary contributor to revenues was the monthly personal identification fee charged for participation in auctions.

Operating Environment

In May 2001, we introduced a personal identification system charging an auction participation fee of ¥280 per month for the purpose of providing a more reliable and safer service. Although the initiation of this personal identification system resulted in a temporary decline in the number of items listed for auction, recovery was immediate. At the end of March 2002, there were approximately 4.2 million items listed for auction, the cumulative monthly total of new items put up for auction rose to about 18 million, and 1.65 million users were registered under the personal identification system.

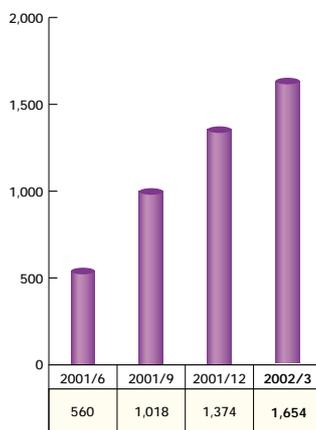
In January 2002, we began offering Yahoo! Yu-Pack, a parcel delivery service using the post office's Yu-Pack parcel delivery service. Our delivery service is a low-cost, highly convenient service available around the clock at any of the outlets of one of Japan's convenience store chains. It works in conjunction with Yahoo! Auctions to simplify delivery for users, allowing them to arrange for the delivery of items auctioned over the Web. To increase safety for some large-ticket items, we also introduced REGILA, an escrow service for automobiles auctioned on our system.

Business Strategies

In April 2002, we introduced system-use fees for listing and selling items on Yahoo! Auctions. Because of the large volume of items posted on the system, we had incurred substantial costs to add new servers, expand the number of communication lines and network devices, and increase staff. Moreover, the large number of items with multiple listings that interfered with item searches and the many items that were really only advertisements had produced some discontentment with our service among auction participants. This situation was creating a problem by undercutting the appeal of Yahoo! Auctions' services. We considered this problem from the viewpoint of benefit assessment, deciding to impose a Listing Fee of ¥10 per item on items put up for auction as of April 15, 2002, and a Cancellation Fee of ¥500 per item canceled after it has been bid on. As of May 15, 2002, persons selling items are being charged 3% of the auction proceeds as a Transaction Fee. For items in special categories, such as automobiles, motorcycles, real estate, and others, the Listing Fee is ¥500 per item, and the Transaction Fee is ¥3,000 regardless of the final auction price.

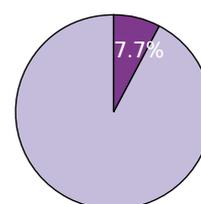
Through these measures, we are aiming to significantly upgrade the convenience of our Yahoo! Auctions services, thereby expanding revenues as a result of greater participation in auctions.

Number of Paying Users (Thousands of IDs)



Note: Total number of paying users at the end of each month.

Share of Net Sales



Other Businesses

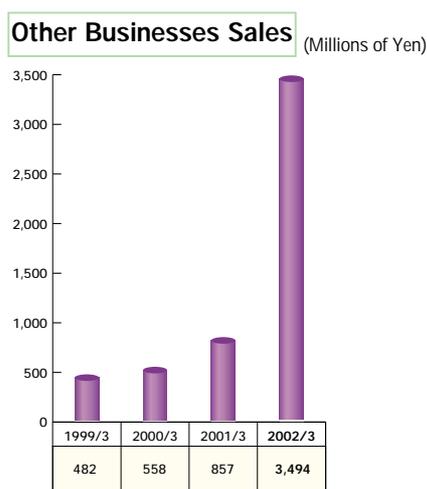
Fiscal revenues from other businesses totaled ¥3,494 million, generating 11.1% of consolidated net sales. The principal contributors to this revenue were the information publishing services of Yahoo! Employment, Yahoo! Autos, Yahoo! Real Estate, and others; commerce services, including shopping tenant fees and sales commissions by Yahoo! Shopping; business services, including the pay site registration review service Business Express; and licensing fees. The sales of our consolidated subsidiary e-Shopping! Books are included in these net sales.

Operating Environment

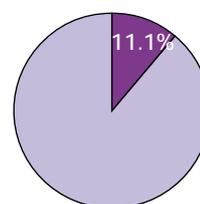
At the end of March 2002, there were 182 shops on Yahoo! Shopping, an increase of 48 stores, or 35.8% year on year. Tenant fees and sales commissions rose ¥271 million, or 184.9%, to ¥418 million. Among the highlights of the fiscal year, we raised our stake in e-Shopping! Books on December 26, 2001, converting it into a consolidated subsidiary. We took this step to seamlessly combine the operations of Yahoo! Japan and this subsidiary, targeting further synergies in our operations. We expect this measure to contribute to growth in Group sales and to improvement in our shopping business and its competitiveness.

Business Strategies

In our business services operations, in October 2001 we launched our Yahoo! Portal Solutions (Corporate Yahoo!). This service utilizes the operating know-how developed by the Yahoo! Japan Group to provide support services for corporate portal sites. It is being sold in cooperation with our marketing partners. Moreover, we have agreed to work with Softbank Commerce Corp. and IBM Japan, Ltd., in providing this service. Corporate information portal construction has been attracting a great deal of attention from companies. Their interest arises from the realization that optimizing the allocation of resources within their organizations not only speeds up and improves the efficiency of decision making and operations, it also helps them take advantage of business opportunities and contributes to improved customer satisfaction.



Share of Net Sales



Contributing to Environmental Protection

As a Group in the service industry, we do not have any operations that produce industrial waste. However, we take environmental protection extremely seriously, and are contributing by conserving natural resources. To reduce our impact on the environment, we undertake the following recycling activities for natural resources. We intend to remain actively involved in tackling the issue of environmental protection.

- Eco Mark (business cards, envelopes, paper shopping bags, notices to shareholders, and others).
- Recycling resources (use of Mamoru-kun, distribution of eco paper plates to Eco League participating universities).